Federal Government announcement Friday 5th April , 2013

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Australians are just now starting to recover from the impact of the global financial crisis on our investments and superannuation savings.

On the 5th April, 2013, the government announced proposed changes to the Australian Superannuation system as follows:

1. **From 1st July 2014, income earned by superannuation fund/ accounts from investments underpinning a pension account will be taxed at 15%, when income of the fund exceeds $100,000.** The $100,000 will be indexed by the consumer price index and the planned changes are aiming to take a greater share of superannuation balances over time as Australia recovers from the global financial crisis and as we start to improve upon the returns our superannuation fund investments can achieve in the future. **The government says it is targeting super fund of $2m in size and earning a 5% return on its investments. Superannuation accounts with much lower account balances will be affected by this proposed legislation.** On average our superannuation funds have enjoyed investments return many times more than 5% level return in just the last 6 months and of course, the aim is to make up ground and continue the trend over time. Longevity going forward, will require higher levels of capital for retirees to sustain their lifestyles and cover the increased cost of care in their twilight years. Australians will be adversely affected if these proposed changes come to fruition. Our retirees will be funding government spending while trying to recover from GFC and as they try to grow and preserve their retirement savings. Inadequate retirement capital will mean many more Australians will need to rely on Centrelink/ social security system in retirement.

2. **Special treatment for capital gains made in a superannuation fund will no longer apply.** Investments need to be refreshed, profits need to be taken for good management purposes. All new investments acquired post 5th April 2013 and sold for prudent investment reasons, will be include in the $100,000 threshold and taxed under the new regime. **Regardless , from July 2024, all current assets loose their concessional capital gains tax status** and will be taxed under the new regime.
   Capital Gains legislation was introduced in September 1985. It is now that we see the huge impact of tax on assets as they are sold and as they pass from one generation to the next. Superannuation assets have received concessional

treatment for CGT purposes until now. The Labour Government now plans to tax these capital gain over time in this new regime.
All this adds still greater complexity to a complex superannuation system and the compliance costs associated with running our superannuation accounts.

3. **Concessional contributions limit to be increased from $25,000 to $35,000 .** The Labour government reduced concessional (deductible employer and salary sacrifice) contributions for persons over 50 years of age from $50,000 to $25,000 one year ago, with the view of reinstating this from 2014 onwards. The increase of $35,000 will not be indexed. $35,000 is well below $50,000 previously in place. The new limits of $35,000 are to apply to concessional contribution from 1st July 2013 for persons over 60 and from 1st July, 2014 for person over 50 and under 60 years of age. It is vital for persons in these age brackets to be encouraged and assisted in saving for their retirement . The lack of indexation will mean the impact of contributions will be further watered down over time. This short termism will mean many more people will be dependent on the centrelink age pension in retirement.

4. **Excess concessional contributions to a superannuation fund above the $25,000 will be refunded and taxed at the individual taxpayers marginal tax rate.** This is a correction of the system introduced by the government which punished superannuation members while allowing employers to pay superannuation contributions within a 3 months period. Employers can pay 13 months of contributions in one financial year without breaching their obligations, however, the member is penalized with penalty rates of 47% tax on excess contributions over the $25,000 annual cap and if member make personal non concessional contribuions , any excess could be taxed again by a further 47%. The current system makes it difficult to salary sacrifice for well meaning members who aim to increase their retirement savings. Recently the current system was adjusted to allow for a once off exemption but was inadequate. **This proposed change is a correction to a difficult and often unjust system.**

5. **A change will be made on how superannation pensions will be treated for Centrelink purposes.** The current superannuation members in pension phase are safe to a certain extent. However if they refresh their pensions for required personal reasons , they and any new superannuation pensioners starting pensions will be disadvantaged. From January 1, 2015, any new pensions will loose the deductible amount against any pension income for Centrelink purposes.
This make it harder for retirees with modest superannuation to achieve at least some part of the age pension or its benefits in the future . Other implications include potential increased contributions towards our age care in the future for Australian of modest means.

Will these proposals become legislation ? – we must wait and see :

1. The general view is that there is little time for these planned changes to be legislated and passed before the Federal election in September 2013. The government has stated that it will go through a consultancy process. This can take anywhere between weeks to months to achieve. The legislation must then be written and then passed.

2. The independents will need to agree to these changes.

3. The announcements of 5th April 2013 are being viewed as an Election Policy .

The implications of these proposed changes are significant for the short to long term and include:

a. Discourages long term saving for our retirement and creating greater dependency on the Centrelink system in the future.

b. Going back on promises and creates greater uncertainty for the future.

c. Makes it harder to preserve a reasonable lifestyle in retirement
    i. Taxing our retirement savings
    ii. Making it harder to access centrelink benefits when we have modest amounts of retirement capital

The Australian Superannuation System is the envy of the world.

The system was designed to take care of our Australian lifestyle, the wellbeing of our aging population and the generations to come.

The benefits we have via our **Australian Superannuation system is excellent** and is indeed, the **most tax effective way of preserving our retirement capital.**

From what has been announced to date, these proposed changes, if implemented, have the potential not to eliminate, but reduce the benefits and affect Australians adversely. It would complicate further an already complex system.

If necessary, this will stimulate further know how and effort that goes into preserving our retirement capital, our retirement lifestyles and our personal, family assets.

We will keep you informed as we progress toward the May Federal Budget and the September Federal Election and always acting in your personal best interest.